Ennismore European Smaller Companies Fund

Investor Newsletter for the month of June 2011

Issued on 11 July 2011

Fund Details

Daily dealing UCITS and Irish Financial Services Regulatory Authority regulated open-ended investment company with Financial Services Authority approval, registered in Ireland and listed on the Irish Stock Exchange. The Fund has an A S&P Fund Research Fund Rating. The Fund size was GBP 181m as at 31st June. Total assets under management by Ennismore Fund Management were GBP 226m.

The Fund is managed as an absolute return fund with the objective of generating positive returns irrespective of market conditions rather than performing relative to any benchmark index. Index data is provided in the following table as a guide to general equity market conditions.

Performance as at 30 June 2011

	Share Class[2]					HSBC Index[3]		MSCI Index[4]
	GBP A £	GBP A €	GBP B	EUR A	EUR B	GBP	EUR	(local)
NAV per Share[1]	**66.01**	**73.09**	**11.14**	**10.59**	**10.59**			
Period			% Change				% Change	
June 11	**4.4**	**1.0**	**4.4**	**1.8**	**1.6**	**-1.0**	**-4.1**	**-1.6**
May 11	-0.2	1.8	-0.2	1.5	1.5	-1.8	-0.2	-1.4
April 11	0.5	-0.1	0.6	-0.1	0.0	3.1	2.5	3.4
March 11	5.3	1.0	5.2	1.9	1.8	2.9	-1.1	-1.9
February 11	0.5	1.3	0.4	0.7	0.9	0.7	1.3	2.1
January 11	2.9	3.0				0.4	0.7	1.9
2011 to date[6]	**14.0**	**8.2**	**11.4**	**5.9**	**5.9**	**4.2**	**-1.1**	**2.4**
Annualised return[5]	**16.6**	**14.2**				**9.7**	**7.4**	**2.5**
Since launch[5]	**572.6**	**419.0**				**216.7**	**143.5**	**35.7**

[1]Source: Administrator, Net Asset Value. [2]Source: Administrator, Net Asset Value, net income reinvested. [3]Source: Bloomberg, HSBC Smaller European Total Return Index. [4]Source: Bloomberg, MSCI Europe Index, local currencies, total return. [5]Since inception of GBP A share class on 27/01/99 to date. [6]From launch to date for GBP B, EUR A, and EUR B share classes. GBP B launched 19/01/11, EUR A and EUR B launched 31/01/11. Note: All performance figures net of fees.

Comments below on performance refer to GBP NAV per share unless otherwise stated, exclude cash returns and are prior to expenses. The Fund's holding in Trader Media East continues to be valued based on the latest net asset value reported by that company, as explained in our October 2009 newsletter.

The Fund's NAV rose by 4.4% in June. Our long book contributed 0.5% while the Fund's short book performed very well, contributing 3.3%.

Portfolio Activity

Figures in brackets refer to previous month end; * = positions > 0.5% of NAV.

As at 30th June the Fund was invested in 76 (77)* stocks. We added five new positions on the long side and exited two and opened one new short position while closing another.

Claim against Lehman Brothers International (Europe)

During the month the sale of the Fund's claim in the administration of Lehman Brothers International (Europe) was agreed and this was reflected in the NAV on 26th June, contributing 1.1%.

LPKF Laser & Electronics – German manufacturer of laser systems (0.9% of NAV)

LPFK is a laser machinery manufacturer. It has a very strong position in systems for printed circuit boards (PCBs), the area the business initially focused on when it was founded in 1976. With a market share of between 70 and 80% in these technologies LPKF is seen as the de facto solution by most customers. While these technologies are relatively mature, with laser penetration at around 70%, recent product launches are still expected to drive further growth. However, the really important development in recent years has been the acceleration of the laser direct structuring (LDS) business, which now accounts for about half of sales. This technique uses a laser to "structure" specially-formulated plastic, allowing the creation of circuit boards directly on components (e.g. mobile phone casings) rather than inserting PCBs into plastic housing. This brings space and weight savings and allows for the creation of 3D circuit boards, which is impossible with standard technology. The LDS process is patented by LPKF and all of our research indicates that no competitors have replicated the technology. Sales in this segment increased by more than 600% from EUR 6m in 2008 to EUR 39m in 2010, due to the technology gaining acceptance in the mobile phone industry. We expect future sales growth to be driven by a new system targeting the tablet/notebook markets (which require a larger area of plastic to be treated) and by new uses such as car steering wheel controls, where the 3D nature of the circuit board allows for innovative designs.

Looking ahead, the other key driver for LPKF will be its thin film business (about 10% of sales). This segment has historically struggled but secured its first major order in Q1 2011 and further orders during Q2. Based on the orders announced to date we expect sales to at least triple from EUR 3m to EUR 9-10m in the current financial year. This market is still in its infancy and it is hard to forecast the sales potential. Nevertheless, LPKF has already won orders from key clients and if the product performs well we expect this could become a significant revenue stream over time.

LPKF generated sales of EUR 81m in 2010 and an operating profit of EUR 17.3m. Despite its excellent positioning and good long-term growth drivers, at a market cap of EUR 145m the shares currently trade on a historic enterprise value to operating profit (EV/EBIT) ratio of only eight and a half times. The business is conservatively financed with no debt and offers a 3% dividend yield which is three times covered. Profit may fall slightly this year as some of the large LDS orders from 2010 will not be repeated, but we expect most of this to be offset by the positive development of thin film. Looking ahead we see strong potential for both of these segments, particularly LDS as it continues to benefit from the trend towards shorter lead times and smaller devices in consumer markets, and expect a return to profit growth in 2012 and beyond. Taking all these factors into account we believe the stock is at least 50% mispriced and expect positive operating developments to drive the share price going forwards.

Top Five Holdings as at 30 June 2011

	Company	Country	Sector	% of NAV
1	Xing	Germany	Technology	6.6
2	Sto	Germany	Construction	6.4
3	Buzzi Unicem	Italy	Construction	3.6
4	Howden Joinery	United Kingdom	Construction	2.8
5	Jd Sports	United Kingdom	Consumer	2.5
				21.9

Exposures as at 30 June 2011

Longs %	Shorts %	Gross Exposure %	Net Exposure %
77.6 (79.3)	35.1 (35.5)	112.7 (114.8)	42.6 (43.8)

Figures in brackets refer to previous month end.

Exposures by Country, Market Cap and Sector as % NAV as at 30 June 2011

Country	Gross%	Net%
Austria	1.9	1.9
Bermuda	2.1	-0.1
Denmark	1.7	1.7
France	4.4	0.3
Germany	32.4	23.8
Ireland	2.3	2.3
Italy	8.3	7.1
Jersey	5.6	-0.2
Netherlands	1.8	1.8
Spain	1.4	-1.4
Sweden	2.0	-1.0
Switzerland	4.2	0.0
UK	36.9	4.4
US	3.6	-0.3
Other	4.1	2.3

Market Cap	Gross%	Net%
>£2bn	3.6	0.4
£700m - £2bn	21.9	-0.1
£200m - £700m	48.7	14.8
<£200m	38.5	27.5

Sector	Gross%	Net%
Construction	14.5	14.6
Consumer	15.2	-3.1
Energy	2.9	-2.3
Financial	3.1	1.3
Food	2.7	0.4
Industrials	15.2	7.6
Leisure	4.1	-3.3
Materials	1.1	0.3
Media	13.8	10.2
Property	6.4	5.7
Services	5.5	3.0
Technology	18.8	10.7
Telecoms	6.8	-4.8
Transport	1.9	1.9
Other	0.7	0.4

The geographic analysis relates to country of incorporation or listing. This may not represent the underlying economic exposure of the operating business.

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